

NORTH DAKOTA STUDENT LOAN TRUST

FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NORTH DAKOTA STUDENT LOAN TRUST

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INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying balance sheets of the North Dakota Student Loan Trust as of June 30, 2009 and 2008 and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the North Dakota Student Loan Trust and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

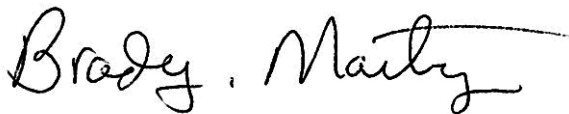
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Student Loan Trust as of June 30, 2009 and 2008, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 27, 2009, on our consideration of the North Dakota Student Loan Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying supplementary information on pages 25 through 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards on Exhibit A-1 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style with a horizontal line extending from the end of the name.

BRADY, MARTZ & ASSOCIATES, P.C.

August 27, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

(In Thousands)

The discussion and analysis of the financial performance of the North Dakota Student Loan Trust (Trust) that follows is meant to provide additional insight into the Trust's activities for the years ended June 30, 2009 and 2008. Please read it in conjunction with the Trust's financial statements and footnotes, which are presented within this report.

FINANCIAL HIGHLIGHTS:

On July 1, 2008, the Trust sold \$16,715 of student loans to the Bank of North Dakota. These loans were sold so that the 2000 Series A Bonds could be called on July 1, 2008.

The T-bill rate is at .18% for FFELP Stafford Loans for the fiscal year ending June 30, 2009. For the fiscal year ended June 30, 2008, FFELP Stafford student loan interest rates were based on a T-bill rate of 1.91%. During June 2007, DEAL became available at either a fixed rate or a variable rate with the rates being adjusted quarterly. As of July 1, 2009, the fixed rate is 5.99% and the variable rate is 2.10% for ND residents and students attending school in ND; the fixed and variable rates for out-of-state students attending out-of-state schools are 7.90% fixed or 3.10% variable. On July 1, 2008, the fixed rate was 7.24% and the variable rate was 4.31%; the fixed and variable rates for out-of-state students attending out-of-state schools was 1% higher.

During fiscal year ended June 30, 2009, arbitrage rebate and yield reduction payable decreased by \$107. The Trust did not make any arbitrage payments in the current fiscal year.

Bonds payable decreased 79.6% to \$15,200 on June 30, 2009. There were no new bonds issued and there were principal payments of \$59,400 made on outstanding bonds. The Trust called \$55,000 of 2000 Series A Bonds on July 1, 2008 and \$2,100 of 1996 D Series bonds on December 1, 2008. The 2000 Series A Bonds were variable rate bonds initially issued as auction rate certificates. During Fiscal Year 2008 the interest rate on these bonds fluctuated from a high of 5.74% to a rate of 2.89%. Because of the instability of the national auction rate market it was determined by the Industrial Commission that these bonds should be called on July 1, 2008.

The Trust 2009 balance sheet indicates that the Trust continues to have adequate resources to provide for bond repayment and continuing operations. There is \$12,966 of current assets, which includes \$6,776 of student loans receivable, available to meet the next fiscal year's obligations of approximately \$269. This amount includes the future obligations to the General Fund as explained under Economic Factors and Budgetary Information. The operating income of \$378 reflected in the statement of revenues, expenses, and changes in fund net assets also illustrates that the Trust has adequate resources to provide for bond repayment and continuing operations.

REQUIRED FINANCIAL STATEMENTS:

The discussion and analysis are intended to serve as an introduction to the Trust's financial statements. The Trust is accounted for utilizing fund accounting and employs 1) the General Bond Resolution Fund and 2) the Second General Bond Resolution Fund. Note 1 to the financial statements provides a description of the organization, funds and significant accounting policies. The financial statements of the Trust provide accounting information similar to that of many other business entities. The Balance Sheet summarizes the assets and liabilities, with the difference between the two reported as net assets. It also serves as the basis for analysis of the soundness and liquidity of the Trust. The Statement of Revenues, Expenses and Changes in Fund Net Assets summarizes the Trust's operating performance for the year. The Statement of Cash Flows summarizes the flow of cash through the Trust as it conducts its business.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

CONDENSED BALANCE SHEETS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS - UNRESTRICTED	\$ 11,953	\$ 5,592
CURRENT ASSETS - RESTRICTED	1,013	68,214
NONCURRENT ASSETS - UNRESTRICTED	34,680	16,307
NONCURRENT ASSETS - RESTRICTED	<u>15,279</u>	<u>35,727</u>
TOTAL ASSETS	<u>\$ 62,925</u>	<u>\$ 125,840</u>
LIABILITIES		
CURRENT LIABILITIES	\$ 269	\$ 59,460
NONCURRENT LIABILITIES	<u>15,293</u>	<u>19,500</u>
TOTAL LIABILITIES	<u>15,562</u>	<u>78,960</u>
NET ASSETS		
RESTRICTED FOR DEBT SERVICE	730	28,425
UNRESTRICTED	<u>46,633</u>	<u>18,455</u>
TOTAL NET ASSETS	<u>47,363</u>	<u>46,880</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 62,925</u>	<u>\$ 125,840</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

(In Thousands)

Cash, Cash Equivalents and Investments

Trust cash, cash equivalents and investments, which are included in restricted assets, are restricted for the debt service of bond issues for the General Bond Resolution and Second General Bond Resolution purposes listed in Note 1 to the financial statements.

Trust cash, cash equivalents and investments, which are included in unrestricted assets, are unrestricted within the Trust for the overall uses of the General Bond Resolution and Second General Bond Resolution purposes listed in Note 1 to the financial statements.

Student Loans Receivable

The student loans receivable are included in current and noncurrent assets of the balance sheet. Student loans are either insured by the federal government (FISL) or guaranteed by the North Dakota Guaranteed Student Loan Program (GSL and DEAL). All guaranteed loans and the collections and earnings therefrom are pledged as collateral to the outstanding bonds of the respective trusts. Additional discussion can be found in Notes 1 and 3 to the financial statements.

Appropriation payable

The 2009 Legislature passed Senate Bill 2003 that provides for an appropriation of up to \$991 from the North Dakota Student Loan Trust to the State Board of Higher Education and \$1,021 for ConnectND Campus Solutions. The 2009 North Dakota Legislature passed Senate Bill 2014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2009 and ending June 30, 2011. See Note 7 to the financial statements.

Bonds Payable

The Trust has issued bonds in order to facilitate the purchase of student loans. The bonds payable are included in the current and noncurrent liabilities of the preceding statement. The bonds are direct obligations of the Trust and are secured by student loans purchased under the applicable resolutions, interest earnings and certain accounts established pursuant to the applicable bond resolutions. Note 5 to the financial statements provide a detailed listing of all the bonds outstanding.

Net Assets

The Restricted Net Assets of the North Dakota Student Loan Trust are restricted by bond resolutions to the following: 1) for the repayment of bond interest and principal, and 2) to make arbitrage rebate and yield reduction payments. Moneys held in surplus accounts can be used to redeem or purchase bonds, finance student loans, or upon certification from the Industrial Commission of North Dakota, fund a guarantee agency's guarantee program.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(In Thousands)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES		
Interest on student loans	\$ 2,040	\$ 3,762
Special allowance and interest subsidy	605	1,828
	<u>2,645</u>	<u>5,590</u>
OPERATING EXPENSES		
Interest	775	3,748
Service fees	992	1,478
Benefit from arbitrage rebate and yield reduction	(107)	(482)
Other	607	371
	<u>2,267</u>	<u>5,115</u>
OPERATING INCOME	378	475
NONOPERATING REVENUE	<u>69</u>	<u>1,602</u>
INCOME BEFORE TRANSFERS	447	2,077
TRANSFERS	<u>36</u>	<u>(3,706)</u>
CHANGE IN NET ASSETS	483	(1,629)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>46,880</u>	<u>48,509</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 47,363</u>	<u>\$ 46,880</u>

Note 1 to the financial statements contains discussion of several of the various operating revenue and expense items pertaining to the Trust.

Special Allowance and Interest Subsidy

The U.S. Department of Education provides a special allowance, which is a subsidy to lenders participating in the Guaranteed Student Loan Program. Also, the U.S. Department of Education pays the Trust the interest earned on subsidized student loans from the date of inception until the end of the grace or deferment period. These payments are included in the operating revenue of the Trust and further discussed in Note 4 of the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(In Thousands)

ECONOMIC FACTORS AND BUDGETARY INFORMATION

The Trust sold \$16,715 of student loans to the Bank of North Dakota on July 1, 2008. Also, on July 1, 2008, the Trust called \$55,000 of 2000 Series A Bonds. The 2000 Series A Bonds were variable rate bonds initially issued as auction rate certificates. During the Fiscal Year 2008 the interest rate on these bonds fluctuated from a high of 5.74% to a rate of 2.89%. Because of the instability of the national auction rate market it was determined by the Industrial Commission that student loans should be sold so that these bonds could be called on July 1, 2008. On December 1, 2008, the Trust also called \$2,100 of 1996 D Series bonds.

The 2009 North Dakota Legislature passed Senate Bill 2003 that provides for an appropriation of \$991 from the North Dakota Student Loan Trust to the State Board of Higher Education and \$1,021 for Connect ND Campus Solutions during the biennium beginning July 1, 2009 and ending June 30, 2011.

The 2009 North Dakota Legislature passed Senate Bill 2014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2009 and ending June 30, 2011.

During the past year the Trust's bond insurer, Ambac Assurance Corp., has been downgraded several times. In June of 2008 the ratings were Aa3 by Moody's and AA by Standard & Poor's. After a series of downgrades on July 29, 2009 Moody's Investors Service was downgraded to Caa2 and on July 28, 2009, Standard & Poor's lowered its rating to CC.

During the fiscal year Moody's Investment Service upgraded the bond rating on the Student Loan Trust's Series 2000 Series B Bonds to Aaa.

CONTACTING THE NORTH DAKOTA STUDENT LOAN TRUST'S FINANCIAL MANAGEMENT

The information in this report is intended to provide the reader with an overview of the Trust's operations along with the Trust's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Industrial Commission, North Dakota Student Loan Trust, 600 East Boulevard Avenue, Department 405, Bismarck, ND 58505-0840.

NORTH DAKOTA STUDENT LOAN TRUST
BALANCE SHEETS
JUNE 30, 2009 AND 2008
(In Thousands)

	2009	2008
ASSETS		
CURRENT ASSETS - UNRESTRICTED		
Cash and cash equivalents	\$ 481	\$ 679
Investments	3,521	-
Interest receivable	1,104	742
Due from other state agencies	1	1
Special allowance and interest subsidy receivable	70	117
Student loans receivable, net of allowance for loan losses	6,776	4,053
Total unrestricted current assets	11,953	5,592
CURRENT ASSETS - RESTRICTED		
Cash and cash equivalents	-	33,817
Investments	1,000	8,288
Interest receivable	-	1,097
Due from other state agencies	2	136
Special allowance and interest subsidy receivable	-	216
Student loans receivable, net of allowance for loan losses	-	24,164
Unamortized bond issue costs	4	444
Prepaid fees	7	52
Total restricted current assets	1,013	68,214
NONCURRENT ASSETS - UNRESTRICTED		
Student loans receivable, net of allowance for loan losses	34,680	16,307
NONCURRENT ASSETS - RESTRICTED		
Student loans receivable, net of allowance for loan losses	15,200	35,626
Unamortized bond issue costs	79	101
Total restricted noncurrent assets	15,279	35,727
Total assets	\$ 62,925	\$ 125,840

See Notes to Financial Statements

	2009	2008
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	\$ 45	\$ 276
Accrued fees payable	13	27
Accrued fees payable - related party	211	413
Appropriation payable	-	3,444
Bonds payable, current portion	-	55,300
Total current liabilities	269	59,460
NONCURRENT LIABILITIES		
Arbitrage rebate payable	93	200
Bonds payable, net of current portion	15,200	19,300
Total noncurrent liabilities	15,293	19,500
Total liabilities	15,562	78,960
NET ASSETS		
Restricted for debt service	730	28,425
Unrestricted	46,633	18,455
Total net assets	47,363	46,880
Total liabilities and net assets	\$ 62,925	\$ 125,840

NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008
(In Thousands)

	2009	2008
OPERATING REVENUES		
Interest on student loans	\$ 2,040	\$ 3,762
Special allowance and interest subsidy	605	1,828
	<u>2,645</u>	<u>5,590</u>
OPERATING EXPENSES		
Interest	775	3,748
Service fees	992	1,478
Administration fees	60	84
Amortization of bond issue costs	462	158
Broker dealer and auction agent fees	55	86
Benefit from arbitrage rebate and yield reduction	(107)	(482)
Provision for loan losses	(29)	(13)
Bond related expenses	59	56
	<u>2,267</u>	<u>5,115</u>
OPERATING INCOME	378	475
NONOPERATING REVENUE		
Investment income	69	1,602
	<u>69</u>	<u>1,602</u>
INCOME BEFORE TRANSFERS	447	2,077
	<u>447</u>	<u>2,077</u>
TRANSFERS FROM (TO)		
North Dakota General Fund	-	(3,100)
State Board of Higher Education	36	(523)
North Dakota Industrial Commission	-	(83)
	<u>36</u>	<u>(3,706)</u>
CHANGE IN NET ASSETS	483	(1,629)
TOTAL NET ASSETS, BEGINNING OF YEAR	46,880	48,509
	<u>46,880</u>	<u>48,509</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 47,363</u>	<u>\$ 46,880</u>

NORTH DAKOTA STUDENT LOAN TRUST
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008
(In Thousands)

	2009	2008
OPERATING ACTIVITIES		
Receipts of student loan repayments	\$ 26,386	\$ 15,647
Receipts of special allowance and interest subsidy	867	2,145
Payments to state agency service providers	(1,254)	(1,662)
Payments to other service providers	(68)	(214)
Payment of arbitrage rebate	-	(28)
Payment of consolidation rebate fee	(178)	(329)
NET CASH FROM OPERATING ACTIVITIES	25,753	15,559
NON-CAPITAL FINANCING ACTIVITIES		
Bond principal payments	(59,400)	(8,900)
Bond interest payments	(929)	(3,790)
Transfer to State Board of Higher Education	(309)	(178)
Transfer to general fund	(3,100)	-
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	(63,738)	(12,868)
INVESTING ACTIVITIES		
Investment interest received	203	1,751
Purchase of investment securities	(9,336)	(52,963)
Proceeds from sale and maturity of investment securities	13,103	81,501
NET CASH FROM INVESTING ACTIVITIES	3,970	30,289
NET CHANGE IN CASH AND CASH EQUIVALENTS	(34,015)	32,980
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	34,496	1,516
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 481	\$ 34,496

STATEMENTS OF CASH FLOWS – Page 2
(In Thousands)

RECONCILIATION OF OPERATING INCOME
TO NET CASH FROM OPERATING ACTIVITIES

Operating income	\$	378	\$	475
Adjustments to reconcile operating income to net cash from operating activities				
Principal received on student loans		24,758		13,002
Provision for loan losses		(29)		(13)
Payment of consolidation rebate fee		(178)		(329)
Amortization of lender fees		77		58
Interest received on student loans		1,628		2,645
Special allowance and interest subsidy received		867		2,145
Amortization of bond issue costs		462		158
Reclassification of interest income and expense to other activities		(1,887)		(2,047)
Changes in assets and liabilities				
Arbitrage rebate payable		(107)		200
Yield reduction payable		-		(710)
Accrued fees payable - related party		(216)		(25)
		<u> </u>		<u> </u>
NET CASH FROM OPERATING ACTIVITIES	\$	<u>25,753</u>	\$	<u>15,559</u>

NORTH DAKOTA STUDENT LOAN TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(In Thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 54-17-24 of the North Dakota Century Code authorized the establishment of the North Dakota Student Loan Trust (Trust). On June 27, 1979, the Commission adopted the North Dakota Student Loan Revenue Bonds General Bond Resolution establishing the North Dakota Student Loan Trust fund. On June 19, 1996, the Commission adopted the Second General Bond Resolution and the First Supplemental Resolution to the North Dakota Student Loan Revenue Bonds - Second General Bond Resolution. The purpose of the Trust is to provide loans to students in post-secondary education. The Trust acquires eligible loans insured or guaranteed, respectively, by the United States government or the North Dakota Guaranteed Student Loan Program. All guaranteed loans and the collections and earnings therefrom are pledged as collateral to the outstanding bonds of the respective trusts.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the Trust should include all component units over which the Trust exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Trust.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The Trust is included as part of the primary government in the State of North Dakota's reporting entity.

Accounting Standards and Adoptions of Accounting Policies

The Trust follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities. In accordance with GASB Statement No. 20, the Trust follows all applicable GASB Pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Fund Accounting

The North Dakota Student Loan Trust consists of a trust fund, which is a separate accounting entity accounted for as an enterprise fund and uses the accrual basis of accounting. The fund is set up in accordance with the authorizing act, the bond resolutions and indenture. The fund consists of the First General Bond Resolution Fund, which includes the 2004 A and Subordinate Series 2004 student loan revenue bonds (all parity bonds) and the Second General Bond Resolution Fund, which includes the 1996 and 2000 student loan revenue bonds (all parity bonds). Proceeds of bonds are recorded in the fund and used to provide student loans to eligible students. The bond resolutions require the establishment of certain accounts and sub-accounts. Bond proceeds that are deposited in these accounts are invested in qualifying investments. Interest income, interest expense, special allowance and interest subsidy, gain on redemption of bonds, and amortization of bond issue costs are recorded in this fund in accordance with the bond resolutions.

NOTES TO FINANCIAL STATEMENTS

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the Trust are included on the balance sheet. Net assets are segregated into restricted and unrestricted components. The statement of revenues, expenses and changes in fund net assets present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows presents the cash flows for operating activities, non-capital financing activities, and investing activities.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates are particularly susceptible to significant change in the near term related to arbitrage rebate and yield reduction payables.

Significant Group Concentrations of Credit Risk

Most of the Trust's activities are with student loan borrowers in the State of North Dakota.

Cash and Cash Equivalents

The Trust considers all cash and time deposit accounts with original maturities of three months or less to be cash and cash equivalents for purposes of reporting cash flows.

Deposits and Investments

The Trust records deposits and investments in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments". Time deposits are carried at cost, as they are nonnegotiable certificates of deposits with redemption terms that do not consider market rates. Investment securities are carried at market value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

Bond Issue Costs, Bond Discounts, and Deferred Amounts on Refunding

Bond issue costs, bond discounts, and deferred amounts on refunding transactions are amortized over the period of time the bonds are outstanding using the bonds outstanding method. The unamortized discounts and deferred amount on refunding are shown on the balance sheet as a reduction of the bonds payable, and the amortization is included in the statements of revenues, expenses and changes in fund net assets as interest expense.

Interest and Premiums on Student Loans

Interest on student loans is accrued when earned. For subsidized loans, interest accrued during periods of student, grace, or any authorized deferment status is billed to and paid by the U.S. Department of Education under its Guaranteed Student Loan Program. Interest during other status periods is paid by the student. For non-subsidized loans, the student pays interest.

NOTES TO FINANCIAL STATEMENTS

Premiums on student loans are amortized using the straight-line method over the estimated life of the loans acquired. The unamortized premiums are reflected on the balance sheet as an addition to student loans, and the amortization is included in the statement of revenues, expenses and changes in fund net assets as a reduction of interest income.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance when management believes the collectability of the principal balance is unlikely. Recoveries of amounts previously charged off are credited to the allowance.

Restricted Assets and Restricted Net Assets

The assets and net assets of the North Dakota Student Loan Trust are restricted by bond resolutions to the following:

1. For the repayment of bond interest and principal.
2. To make arbitrage rebate and yield reduction payments.

Moneys held in surplus accounts (which are classified as unrestricted on the balance sheet) can be used to redeem or purchase bonds, finance student loans, or upon certification from the Industrial Commission of North Dakota (the Commission), fund a guarantee agency's guarantee program. As of June 30, 2009 and 2008, the surplus accounts consist of the following:

	2009	2008
Cash and cash equivalents	\$ 481	\$ 679
Investments	3,521	-
Interest receivable	1,104	742
Due from other state agencies	1	1
Special allowance and interest subsidy receivable	70	117
Student loans receivable, net of allowance for loan losses	41,456	20,360
Appropriation payable	-	(3,444)
	<u>\$ 46,633</u>	<u>\$ 18,455</u>

Expenses of the Trust are paid in accordance with the provisions of the General and Second General Bond Resolutions and the Series Resolutions. Expenses related to a specific bond series are paid from funds available within that particular resolution.

Operating and Non-Operating Revenues

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake.

All other revenues that do not meet the above criteria are classified as non-operating.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds have their moneys invested in securities or deposits allowed by the General Bond Resolution establishing the Trust and the Second General Bond Resolution. Such moneys may be invested in: (1) direct obligations of or obligations guaranteed by the United States of America, (2) deposits of the Bank of North Dakota which are guaranteed as provided in North Dakota Century Code Section 6-09-10, (3) demand deposits and time deposits issued by banks, which are members of the Federal Deposit Insurance Corporation, (4) bonds, debentures or notes or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the United States of America, (5) repurchase agreements or reverse repurchase agreements with banks, which are secured by securities which are obligations described in item (1) above, and (6) banker's acceptances of banks described in items (2) and (3) above.

Deposits

As of June 30, 2009 and 2008, the Trust had the following deposits (amounts in thousands):

	<u>2009</u>	<u>2008</u>
Cash		
Bank of North Dakota	\$ 99	\$ 733
Time deposits		
Bank of North Dakota	<u>4,903</u>	<u>42,051</u>
	<u>\$ 5,002</u>	<u>\$ 42,784</u>

As of June 30, 2009, and 2008, the Trust had the following classification of deposits on the balance sheet:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 481	\$ 34,496
Investments	<u>4,521</u>	<u>8,288</u>
	<u>\$ 5,002</u>	<u>\$ 42,784</u>

Custodial and Concentration of Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Trust will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Trust does not have a formal policy that limits custodial credit risk for deposits. None of the Trust's deposits are covered by depository insurance. The Trust's deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - STUDENT LOANS RECEIVABLE

The Trust has outstanding loans with annual fixed and variable interest rates. Student loans are either insured by the federal government (FISL) or guaranteed by the North Dakota Guaranteed Student Loan Program (GSL and DEAL). Loans made prior to October 1, 1993 are 100% insured. Loans made thereafter are 100% insured against borrowers' death, disability or bankruptcy, and 98% insured against borrowers' default.

At June 30, 2009 and 2008, student loans are categorized as follows:

	2009	2008
FISL	\$ -	\$ 54
DEAL	6,094	6,966
GSL	50,292	72,766
	<u>56,386</u>	<u>79,786</u>
Unamortized premiums	345	476
Allowance for loan losses	<u>(75)</u>	<u>(112)</u>
Total student loans receivable	56,656	80,150
Less current portion	<u>6,776</u>	<u>28,217</u>
Noncurrent portion	<u>\$ 49,880</u>	<u>\$ 51,933</u>

Student loans are classified as student, deferred, repayment or claim status. The student status represents the period from the date the loan is made until a student is out of school, plus an authorized grace period. Deferred status represents a loan that has an authorized deferment of payment period. Repayment status indicates the loan is in repayment. Claim status represents those loans that have a claim filed with the guarantor. Interest earned on subsidized loans while the loan is classified as student or deferred is paid by the Department of Education.

At June 30, 2009, student loans receivable are categorized as follows:

	Subsidized	Nonsubsidized	Unsubsidized	DEAL	Total
Student	\$ 1,723	\$ -	\$ 2,170	\$ 61	\$ 3,954
Deferred	5,360	-	4,695	1,126	11,181
Repayment	25,128	-	11,216	4,907	41,251
	<u>32,211</u>	<u>-</u>	<u>18,081</u>	<u>6,094</u>	<u>56,386</u>
Unamortized premiums	298	-	-	47	345
Allowance for loan losses	<u>(48)</u>	<u>-</u>	<u>(27)</u>	<u>-</u>	<u>(75)</u>
Total	<u>\$ 32,461</u>	<u>\$ -</u>	<u>\$ 18,054</u>	<u>\$ 6,141</u>	<u>\$ 56,656</u>

NOTES TO FINANCIAL STATEMENTS

At June 30, 2008, student loans receivable are categorized as follows:

	Subsidized	Nonsubsidized	Unsubsidized	DEAL	Total
Student	\$ 3,613	\$ -	\$ 4,603	\$ 152	\$ 8,368
Deferred	7,962	16	5,143	1,476	14,597
Repayment	40,074	152	11,257	5,338	56,821
	<u>51,649</u>	<u>168</u>	<u>21,003</u>	<u>6,966</u>	<u>79,786</u>
Unamortized premiums	423	-	-	53	476
Allowance					
for loan losses	<u>(72)</u>	<u>-</u>	<u>(40)</u>	<u>-</u>	<u>(112)</u>
Total	<u>\$ 52,000</u>	<u>\$ 168</u>	<u>\$ 20,963</u>	<u>\$ 7,019</u>	<u>\$ 80,150</u>

The composition of the allowance for loan losses for the years ended June 30, 2009 and 2008 is as follows:

	2009	2008
Balance - beginning of year	\$ 112	\$ 139
Provision for loan losses	(29)	(13)
Loans charged off	<u>(8)</u>	<u>(14)</u>
Balance - end of year	<u>\$ 75</u>	<u>\$ 112</u>

NOTE 4 - SPECIAL ALLOWANCE AND INTEREST SUBSIDY

The U.S. Department of Education provides a special allowance, which is a subsidy to lenders participating in the Guaranteed Student Loan Program. Special allowances are computed and paid quarterly on the average daily unpaid principal amount of student loans outstanding, based on a special allowance formula which generally follows the average of the quotes of the 3-month commercial paper rates in effect for each of the days in the quarter (for loans made after January 1, 2000) or the average bond equivalent rate 91-day United States Treasury Bills auctioned during the calendar quarter (for loans made prior to January 1, 2000). The Trust records this special allowance as a receivable and as revenue when earned.

The U.S. Department of Education pays the Trust the interest earned on subsidized student loans from the date of inception until the end of the grace or deferment period. This subsidy is equivalent to the annually computed base student loan interest rate multiplied by the average unpaid loan balance for the period in which the loan is in student, grace or deferred status.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - BONDS PAYABLE

Changes in Bonds Payable

The following is a summary of the changes in bonds payable for the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 74,600	\$ 83,500
Issuance of bonds	-	-
Principal payments on bonds	<u>(59,400)</u>	<u>(8,900)</u>
Balance, end of year	<u>\$ 15,200</u>	<u>\$ 74,600</u>
Amounts due within one year	<u>\$ -</u>	<u>\$ 55,300</u>

NOTES TO FINANCIAL STATEMENTS

Maturities of Bonds Payable

Bonds payable consists of the following at June 30, 2009 and 2008:

	<u>Maturity Dates</u>	<u>Interest Rate (%)</u>		<u>2009</u>	<u>2008</u>
General Bond Resolution Fund					
2004 Series A	June 1, 2029	1.01 (1)	\$	1,000	\$ 1,000
2004 Subordinate Series	June 1, 2029	1.01 (1)		6,200	8,200
Second General Bond Resolution Fund					
1996 Series D	July 1, 2009-2014	6.15 -6.40 (2)		-	2,400
2000 Series A	December 1, 2035	0.00 (1)		-	55,000
2000 Series B	December 1, 2025	5.85		8,000	8,000
				<u>15,200</u>	<u>74,600</u>
Total bonds payable				15,200	74,600
Less current portion				<u>-</u>	<u>55,300</u>
Noncurrent portion				<u>\$ 15,200</u>	<u>\$ 19,300</u>

(1) Variable on June 30, 2009.

(2) Called December 1, 2008

NOTES TO FINANCIAL STATEMENTS

The combined aggregate of future maturities and sinking fund requirements for all bonds is as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ -	\$ 541	\$ 541
2011	-	541	541
2012	-	541	541
2013	-	541	541
2014	-	541	541
2015-2019	-	2,703	2,703
2020-2024	-	2,703	2,703
2025-2029	15,200	1,066	16,266
	<u>\$ 15,200</u>	<u>\$ 9,177</u>	<u>\$ 24,377</u>

The following is a more detailed description of the individual bond issues that remain outstanding at June 30, 2009 and 2008.

1996 SERIES D BONDS

The proceeds of the 1996 Series D Bonds were used to finance the acquisition of supplemental loans. Interest is payable semiannually on January 1 and July 1 of each year. These bonds are subject to redemption prior to maturity at the option of the Industrial Commission on July 1, 2006 at 100% of the principal amount plus accrued interest to date of redemption.

As of June 30, 2009, no 1996 Series D bonds are outstanding.

2000 SERIES A AND B BONDS

Interest is payable semiannually on June 1 and December 1 of each year. The proceeds of the Series 2000 Bonds were used to provide funds for the acquisition of student loans from the Bank of North Dakota. The 2000 Series A Bonds are variable rate bonds initially issued as auction rate certificates. The rate of interest will be determined based on auction rate certificates each 35-day period. Details of the terms and provisions of the auction rate bonds are outlined in Schedule A of the Second Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds Second General Bond Resolution. The 2000 Series B Bonds are fixed rate bonds. Under certain conditions, the Industrial Commission may call for early redemption of the 2000 Series A and B Bonds at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

As of June 30, 2009, no 2000 Series A bonds are outstanding.

NOTES TO FINANCIAL STATEMENTS

2004 SERIES A BONDS

Interest is payable semiannually on June 1 and December 1 of each year. The 2004 Series A Bonds are variable rate bonds. The rate of interest is determined based on the lesser of either the one-month LIBOR plus .7% or Federal Home Loan Bank plus .7%. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.1 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. Section 2.2 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution has deemed these to be Federally Taxable Bonds. The Series 2004 Bonds are subject to redemption prior to maturity at the option of the Commission from any source of funds, in whole or in part, on any date at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

SUBORDINATE SERIES 2004 BONDS

Interest is payable semiannually on June 1 and December 1 of each year. The Subordinate Series 2004 Bonds are variable rate bonds. The rate of interest is determined based on the lesser of either the one-month LIBOR plus .7% or Federal Home Loan Bank plus .7%. Details of the terms and provisions of the variable rate bonds are outlined in Section 2.1 of the Fourth Supplemental Resolution to the State of North Dakota Student Loan Revenue Bonds First General Bond Resolution. The Subordinate Series 2004 Bonds are subject to redemption prior to maturity at the option of the Commission from any source of funds, in whole or in part, on any date at a redemption price equal to 100% of the principal amount plus accrued interest to date of redemption.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - ARBITRAGE REBATE AND YIELD REDUCTION PAYABLES

The 2000 and 1996 bond resolutions contain arbitrage provisions and the 2000 and 1996 bond resolutions contain yield reduction provisions. These provisions state that any excess investment earnings, which are subject to rebate under the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, are to be rebated to the U.S. Treasury in accordance with such regulations. The Commission through the Trust has the estimated arbitrage rebate and yield reduction amounts calculated by independent consultants in accordance with the requirements of the referenced supplemental resolutions.

Activity in these payables is as follows:

	Arbitrage Rebate	Yield Reduction
Balance, June 30, 2007	\$ -	\$ 710
Provision (Benefit)	228	(710)
Paid	(28)	-
Balance, June 30, 2008	200	-
Provision (Benefit)	(107)	-
Paid	-	-
Balance, June 30, 2009	<u>\$ 93</u>	<u>\$ -</u>
Current	\$ -	\$ -
Noncurrent	93	-
	<u>\$ 93</u>	<u>\$ -</u>

NOTE 7 - INTERFUND AND RELATED PARTY TRANSACTIONS

Current Events

The North Dakota Student Loan Trust is related to the Bank of North Dakota through common management under the Industrial Commission of North Dakota. All cash and time deposits are deposited in the Bank of North Dakota. Interest receivable from the Bank of North Dakota totaled \$3 and \$136 as of June 30, 2009 and 2008 and is reflected as due from other state agencies on the balance sheet. Investment securities are held in safekeeping and all student loans are purchased from the Bank of North Dakota. The Bank of North Dakota also acts as the paying agent for the 2004 Subordinate Series Bonds, 2004 Series A Bonds, 2000 Series A and B Bonds, and the 1996 Series D Bonds. In addition, the Bank services the student loans held by the Trust, and maintains the accounting and other records for the Trust.

NOTES TO FINANCIAL STATEMENTS

Fees expense to the Bank of North Dakota for the following services included in the accompanying financial statements were as follows:

	<u>2009</u>	<u>2008</u>
Service fees	\$ 992	\$ 1,478
Administration fees	<u>60</u>	<u>84</u>
	<u>\$ 1,052</u>	<u>\$ 1,562</u>

Payables to the related parties for such fees amounting to \$211 and \$413 at June 30, 2009 and 2008 are included in "accrued fees payable - related party" on the balance sheet.

The 2007 North Dakota Legislature passed House Bill 1014 that provides for an appropriation of \$3,100 from the North Dakota Student Loan Trust to the State's General Fund during the biennium beginning July 1, 2007 and ending June 30, 2009. The moneys must be transferred in such amounts and at such times as requested by the director of the Office of Management and Budget and upon certification by the Trust's trustee that sufficient moneys remain available to pay all debt service on student loan trust bonds, all required rebate payments to the U.S. Treasury, and all program operating expenses. This appropriation was paid during the fiscal year ending June 30, 2009.

The 2007 North Dakota Legislature passed House Bill 1003 that provides for an appropriation of up to \$523 from the North Dakota Student Loan Trust to the State Board of Higher Education for the professional student exchange program during the biennium beginning July 1, 2007 and ending June 30, 2009. \$487 of this appropriation was paid during the biennium ending June 30, 2009. The remaining \$36 will not be paid as it is recognized as a "transfer from" the June 30, 2009 Statement of Revenues, Expenses and Changes in Fund Net Assets.

The 2007 North Dakota Legislature passed House Bill 1014 that provides for an appropriation of up to \$91 from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2007 and ending June 30, 2009. \$83 was requested and transferred during the fiscal year ending June 30, 2008.

NOTE 8 - SUBSEQUENT EVENTS

The 2009 North Dakota Legislature passed Senate Bill 2003 that provides for an appropriation of up to \$991 from the North Dakota Student Loan Trust to the State Board of Higher Education for the professional student exchange program and \$1,021 for the Connect ND Campus Solutions during the biennium beginning July 1, 2009 and ending June 30, 2011.

The 2009 North Dakota Legislature passed Senate Bill 2014 that provides for an appropriation from the North Dakota Student Loan Trust to the North Dakota Industrial Commission during the biennium beginning July 1, 2009 and ending June 30, 2011.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - RISK MANAGEMENT

The North Dakota Student Loan Trust is exposed to various risks of loss related to torts and errors and omissions. The North Dakota Student Loan Trust is administered by the North Dakota Industrial Commission and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of \$750,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NORTH DAKOTA STUDENT LOAN TRUST

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING BALANCE SHEET
JUNE 30, 2009
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
ASSETS			
CURRENT ASSETS - UNRESTRICTED			
Cash and cash equivalents	\$ 457	\$ 24	\$ 481
Investments	-	3,521	3,521
Interest receivable	462	642	1,104
Due from other state agencies	-	1	1
Special allowance and interest subsidy receivable	20	50	70
Student loans receivable, net of allowance for loan losses	1,800	4,976	6,776
	<u>2,739</u>	<u>9,214</u>	<u>11,953</u>
Total unrestricted current assets	<u>2,739</u>	<u>9,214</u>	<u>11,953</u>
CURRENT ASSETS - RESTRICTED			
Investments	500	500	1,000
Due from other state agencies	1	1	2
Unamortized bond issue costs	2	2	4
Prepaid fees	-	7	7
	<u>503</u>	<u>510</u>	<u>1,013</u>
Total restricted current assets	<u>503</u>	<u>510</u>	<u>1,013</u>
NONCURRENT ASSETS - UNRESTRICTED			
Student loans receivable, net of allowance for loan losses	16,122	18,558	34,680
	<u>16,122</u>	<u>18,558</u>	<u>34,680</u>
NONCURRENT ASSETS - RESTRICTED			
Student loans receivable, net of allowance for loan losses	7,200	8,000	15,200
Unamortized bond issue costs	44	35	79
	<u>7,244</u>	<u>8,035</u>	<u>15,279</u>
Total restricted noncurrent assets	<u>7,244</u>	<u>8,035</u>	<u>15,279</u>
Total assets	<u>\$ 26,608</u>	<u>\$ 36,317</u>	<u>\$ 62,925</u>

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accrued interest payable	\$ 6	\$ 39	\$ 45
Accrued fees payable	12	1	13
Accrued fees payable - related party	117	94	211
	<u>135</u>	<u>134</u>	<u>269</u>
Total current liabilities			
	<u>135</u>	<u>134</u>	<u>269</u>
NONCURRENT LIABILITIES			
Arbitrage rebate payable	-	93	93
Bonds payable, net of current portion	7,200	8,000	15,200
	<u>7,200</u>	<u>8,093</u>	<u>15,293</u>
Total noncurrent liabilities			
	<u>7,200</u>	<u>8,093</u>	<u>15,293</u>
Total liabilities			
	<u>7,335</u>	<u>8,227</u>	<u>15,562</u>
NET ASSETS			
Restricted for debt service	412	318	730
Unrestricted	18,861	27,772	46,633
	<u>19,273</u>	<u>28,090</u>	<u>47,363</u>
Total net assets			
	<u>19,273</u>	<u>28,090</u>	<u>47,363</u>
Total liabilities and net assets	\$ 26,608	\$ 36,317	\$ 62,925
	<u>\$ 26,608</u>	<u>\$ 36,317</u>	<u>\$ 62,925</u>

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING BALANCE SHEET
JUNE 30, 2008
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
ASSETS			
CURRENT ASSETS - UNRESTRICTED			
Cash and cash equivalents	\$ 679	\$ -	\$ 679
Interest receivable	742	-	742
Due from other state agencies	1	-	1
Special allowance and interest subsidy receivable	117	-	117
Student loans receivable, net of allowance for loan losses	4,053	-	4,053
	<u>5,592</u>	<u>-</u>	<u>5,592</u>
Total unrestricted current assets	<u>5,592</u>	<u>-</u>	<u>5,592</u>
CURRENT ASSETS - RESTRICTED			
Cash and cash equivalents	-	33,817	33,817
Investments	500	7,788	8,288
Interest receivable	-	1,097	1,097
Due from other state agencies	1	135	136
Special allowance and interest subsidy receivable	-	216	216
Student loans receivable, net of allowance for loan losses	-	24,164	24,164
Unamortized bond issue costs	3	441	444
Prepaid fees	-	52	52
	<u>504</u>	<u>67,710</u>	<u>68,214</u>
Total restricted current assets	<u>504</u>	<u>67,710</u>	<u>68,214</u>
NONCURRENT ASSETS - UNRESTRICTED			
Student loans receivable, net of allowance for loan losses	16,307	-	16,307
	<u>16,307</u>	<u>-</u>	<u>16,307</u>
NONCURRENT ASSETS - RESTRICTED			
Student loans receivable, net of allowance for loan losses	9,200	26,426	35,626
Unamortized bond issue costs	50	51	101
	<u>9,250</u>	<u>26,477</u>	<u>35,727</u>
Total restricted noncurrent assets	<u>9,250</u>	<u>26,477</u>	<u>35,727</u>
Total assets	<u>\$ 31,653</u>	<u>\$ 94,187</u>	<u>\$ 125,840</u>

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accrued interest payable	\$ 24	\$ 252	\$ 276
Accrued fees payable	14	13	27
Accrued fees payable - related party	137	276	413
Appropriation payable	3,444	-	3,444
Bonds payable, current portion	<u>-</u>	<u>55,300</u>	<u>55,300</u>
Total current liabilities	<u>3,619</u>	<u>55,841</u>	<u>59,460</u>
NONCURRENT LIABILITIES			
Arbitrage rebate payable	-	200	200
Bonds payable, net of current portion	<u>9,200</u>	<u>10,100</u>	<u>19,300</u>
Total noncurrent liabilities	<u>9,200</u>	<u>10,300</u>	<u>19,500</u>
Total liabilities	<u>12,819</u>	<u>66,141</u>	<u>78,960</u>
NET ASSETS			
Restricted for debt service	379	28,046	28,425
Unrestricted	<u>18,455</u>	<u>-</u>	<u>18,455</u>
Total net assets	<u>18,834</u>	<u>28,046</u>	<u>46,880</u>
Total liabilities and net assets	<u>\$ 31,653</u>	<u>\$ 94,187</u>	<u>\$ 125,840</u>

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2009
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
OPERATING REVENUES			
Interest on student loans	\$ 750	\$ 1,290	\$ 2,040
Special allowance and interest subsidy	302	303	605
	<u>1,052</u>	<u>1,593</u>	<u>2,645</u>
OPERATING EXPENSES			
Interest	184	591	775
Service fees	476	516	992
Administration fees	28	32	60
Amortization of bond issue costs	7	455	462
Broker dealer and auction agent fees	-	55	55
Benefit from arbitrage rebate	-	(107)	(107)
Provision for loan losses	(30)	1	(29)
Bond related expenses	-	59	59
	<u>665</u>	<u>1,602</u>	<u>2,267</u>
OPERATING INCOME (LOSS)	387	(9)	378
NONOPERATING REVENUE			
Investment income	<u>16</u>	<u>53</u>	<u>69</u>
INCOME BEFORE TRANSFERS	<u>403</u>	<u>44</u>	<u>447</u>
TRANSFERS FROM			
State Board of Higher Education	<u>36</u>	<u>-</u>	<u>36</u>
	<u>36</u>	<u>-</u>	<u>36</u>
CHANGE IN NET ASSETS	439	44	483
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>18,834</u>	<u>28,046</u>	<u>46,880</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 19,273</u>	<u>\$ 28,090</u>	<u>\$ 47,363</u>

NORTH DAKOTA STUDENT LOAN TRUST
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2008
(In Thousands)

	General Bond Resolution Fund	Second General Bond Resolution Fund	Combined
OPERATING REVENUES			
Interest on student loans	\$ 1,258	\$ 2,504	\$ 3,762
Special allowance and interest subsidy	724	1,104	1,828
	<u>1,982</u>	<u>3,608</u>	<u>5,590</u>
OPERATING EXPENSES			
Interest	590	3,158	3,748
Service fees	542	936	1,478
Administration fees	31	53	84
Amortization of bond issue costs	16	142	158
Broker dealer and auction agent fees	-	86	86
Benefit for arbitrage rebate	-	(279)	(279)
Benefit from yield reduction	-	(203)	(203)
Provision for loan losses	13	(26)	(13)
Bond related expenses	-	56	56
	<u>1,192</u>	<u>3,923</u>	<u>5,115</u>
OPERATING INCOME (LOSS)	790	(315)	475
NONOPERATING REVENUE			
Investment income	42	1,560	1,602
INCOME BEFORE TRANSFERS	<u>832</u>	<u>1,245</u>	<u>2,077</u>
TRANSFERS TO			
North Dakota General Fund	(3,100)	-	(3,100)
State Board of Higher Education	(523)	-	(523)
North Dakota Industrial Commission	-	(83)	(83)
	<u>(3,623)</u>	<u>(83)</u>	<u>(3,706)</u>
CHANGE IN NET ASSETS	(2,791)	1,162	(1,629)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>21,625</u>	<u>26,884</u>	<u>48,509</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 18,834</u>	<u>\$ 28,046</u>	<u>\$ 46,880</u>

NORTH DAKOTA STUDENT LOAN TRUST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009
(In Thousands)

EXHIBIT A-1

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF EDUCATION		
Direct Program:		
Federal Family Education Loan Program	84.032	
Interest Subsidy		\$ 318
Special Allowance		287
Guaranteed Student Loans:		50,292
Balance of guaranteed student loans at June 30, 2009 on which there are continuing compliance requirements		<u>\$ 50,897</u>
TOTAL FEDERAL AWARDS		

NOTE 1 - The schedule of expenditures of federal awards includes the federal grant activity of the North Dakota Student Loan Trust and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NORTH DAKOTA STUDENT LOAN TRUST
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009**

EXHIBIT A-2

None.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Student Loan Trust as of and for the year ended June 30, 2009, which collectively comprise the North Dakota Student Loan Trust's basic financial statements and have issued our report thereon dated August 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Dakota Student Loan Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Student Loan Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the North Dakota Student Loan Trust's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

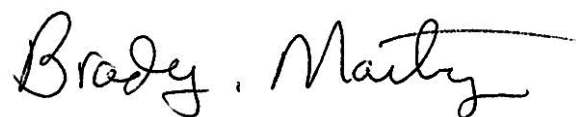
A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Student Loan Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brady, Martz". The signature is written in a cursive, flowing style.

BRADY, MARTZ & ASSOCIATES, P.C.

August 27, 2009

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

Compliance

We have audited the compliance of the North Dakota Student Loan Trust with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The North Dakota Student Loan Trust's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the North Dakota Student Loan Trust's management. Our responsibility is to express an opinion on the North Dakota Student Loan Trust's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the North Dakota Student Loan Trust's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the North Dakota Student Loan Trust's compliance with those requirements.

In our opinion, the North Dakota Student Loan Trust complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2009-1.

We have also audited the Trust's compliance with the following compliance requirements:

- LaRS Report,
- Individual Record Review,
- Loan Origination Fees,
- Interest Benefits,
- Special Allowance Payments,
- Loan Portfolio Analysis,
- Loan Sales, Purchases and Transfers,
- Student Status Changes,
- Payment Processing,
- Due Diligence by Lenders or Servicers in the Collection of Delinquent Loans,
- Due Diligence – Timely Claim Filings by Lenders or Servicers, and
- Cures

relative to the Trust's administration of the Federal Family Education Loan Program on behalf of its lender clients during the year ended June 30, 2009 and have tested the effectiveness of the Trust's internal control over compliance with the aforementioned compliance requirements as of June 30, 2009. Management is responsible for the Trust's compliance with and the effectiveness of the Trust's internal control over compliance with those requirements. Our responsibility is to express an opinion on the Trust's compliance with and the effectiveness of the Trust's internal control over compliance with the specified compliance requirements based on our audit.

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and the 1996 Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders or Lender Servicers Participating in the Federal Family Education Loan (FFEL) Program (the Guide)*, issued by the U.S. Department of Education, Office of Inspector General; and, accordingly, included obtaining an understanding of the internal control over compliance with the specified requirements; testing and evaluating the design and operating effectiveness of internal control over compliance; and examining, on a test basis, evidence about the Trust's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

In our opinion the North Dakota Student Loan Trust complied, with the aforementioned requirements for the year ended June 30, 2009 and that the North Dakota Student Loan Trust maintained effective internal control over compliance with the aforementioned compliance requirements as of June 30, 2009, are fairly stated, in all material respects, based upon the criteria for internal control described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with the 1996 Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders or Lender Servicers Participating in the Federal Family Education Loan (FFEL) Program (the Guide)*, issued by the U.S. Department of Education, Office of Inspector general; and which are described in the accompanying schedule of findings and questioned costs as item 2009-1.

Internal Control Over Compliance

The management of the North Dakota Student Loan Trust is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the North Dakota Student Loan Trust's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Student Loan Trust's internal control over compliance.

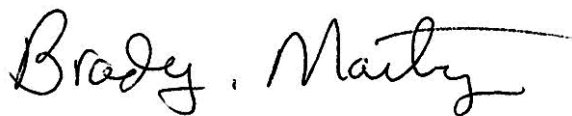
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as described below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Trust's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Trust's internal control. We do not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Trust's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Trust's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

August 27, 2009

**NORTH DAKOTA STUDENT LOAN TRUST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

EXHIBIT A-5

PART I - SUMMARY OF AUDITOR'S RESULTS

1. An unqualified opinion was issued on the financial statements of the North Dakota Student Loan Trust.
2. We noted no matters involving internal control that we considered to be material weaknesses during the audit of the financial statements.
3. The audit disclosed no instances of noncompliance which were material to the financial statements of the North Dakota Student Loan Trust.
4. See finding 2009-1.
5. An unqualified opinion was issued on compliance for the major program of the North Dakota Student Loan Trust.
6. The audit disclosed audit finding 2009-1 required to be reported under Section 510(a) of OMB Circular A-133.
7. The North Dakota Student Loan Trust receives federal financial assistance under one program, the Federal Family Education Loan Program (84.032), which is considered to be a major program.
8. The North Dakota Student Loan Trust receives federal financial assistance under one program, the Federal Family Education Loan Program (84.032), which is considered to be a Type A program. There are no Type B programs. The threshold for distinguishing between Type A and B programs was \$300,000.
9. The North Dakota Student Loan Trust qualified as a low-risk auditee under Section 530 of OMB Circular A-133.

PART II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS

1. There are no findings relating to the financial statements, which are required to be reported in accordance with Generally Accepted Government Auditing Standards.

PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

1. There was one finding 2009-1 and no questioned costs relating to the federal award programs which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

Finding 2009-1 - Relating to the Federal Family Education Loan Program (84.032), Department of Education

Statement of Condition: The amount reported as the principal of the loans sold on the LaRS report for the quarter ending September 30, 2008 was \$17,508,147 and the actual amount per the bill of sale was \$16,714,802 resulting in a difference of \$793,345.

Criteria: The Trust is required to report quarterly on LaRS Form 799 the principal amount of loans sold.

Effect: An incorrect amount was submitted by the servicer to the DOE.

**NORTH DAKOTA STUDENT LOAN TRUST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

EXHIBIT A-5

Cause: An improper amount was inadvertently inputted on the quarterly reconciliation used for preparation of the LaRS report.

Recommendation: The Servicer should update its review procedures to include a specific detailed review of any unusual or infrequent items, such as the sale of loans on the LaRS report.

Response: Bank of North Dakota (BND) purchased loans from several lenders in the 3rd quarter of 2008. The aggregate amount purchased from all lenders was reported on part V of the LaRs as a sale between BND and North Dakota Student Loan Trust (NDSLT). This is a manual effort as the reporting process did not produce separate results for each lender, therefore, an overstated amount of the loans sold by the NDSLT occurred.

Procedures have been updated to ensure this error does not reoccur. BND is also in the process of purchasing a student loan system and feedback received indicates the LaRs reporting process is a strength of that system. The change to procedures and the purchase of a new system should mitigate the error from reoccurring.

**NORTH DAKOTA STUDENT LOAN TRUST
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE NORTH DAKOTA
LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2009**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

1. What type of opinion was issued on the financial statements?

Unqualified.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

No, there was a noncompliance finding with the Federal Family Education Loan program. See finding 2009-1.

3. Was internal control adequate and functioning effectively?

Yes.

4. Was there any indications of lack of efficiency in financial operations and management of the agency?

No.

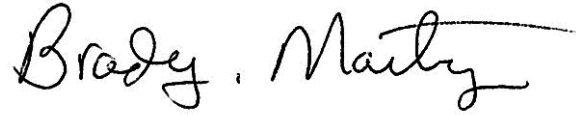
5. Has action been taken on findings and recommendations included in prior audit reports?

As noted in the Summary Schedule of Prior Audit Findings (Exhibit A-2) on page 30, there were no prior year findings.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

No.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Brady Martz". The signature is written in black ink and is positioned above the printed name of the firm.

BRADY, MARTZ & ASSOCIATES, P.C.

August 27, 2009

August 27, 2009

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Student Loan Trust for the year ended June 30, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, Governmental Auditing Standards and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 15, 2009. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Student Loan Trust are described in Note 1 to the financial statements. (No new accounting policies were adopted and the application of existing policies was not changed during 2009.) We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for loan losses were based on a provision for loan losses charged to expense. Loans are charged against the allowance when management believes the collectability of the principal balance is unlikely. Management's estimate of the arbitrage rebate payable was based on amounts calculated by independent consultants in accordance with the requirements of the referenced supplemental resolutions. Management's estimate of the allowance for amortization of bond issue costs is amortized over the period of time the bonds are outstanding using the bonds outstanding method. We evaluated the key factors and assumptions used to develop the allowance for loan losses, arbitrage rebate payable, and amortization of bond issue costs in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 2 Deposits and Investments, Note 3 Student Loans Receivable and Note 5 Bonds Payable.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated August 27, 2009.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

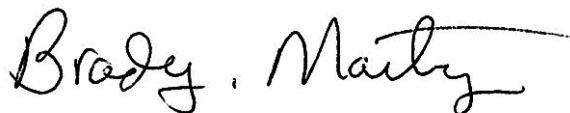
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the North Dakota Industrial Commission and management of North Dakota Student Loan Trust and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

BRADY, MARTZ & ASSOCIATES, P.C.